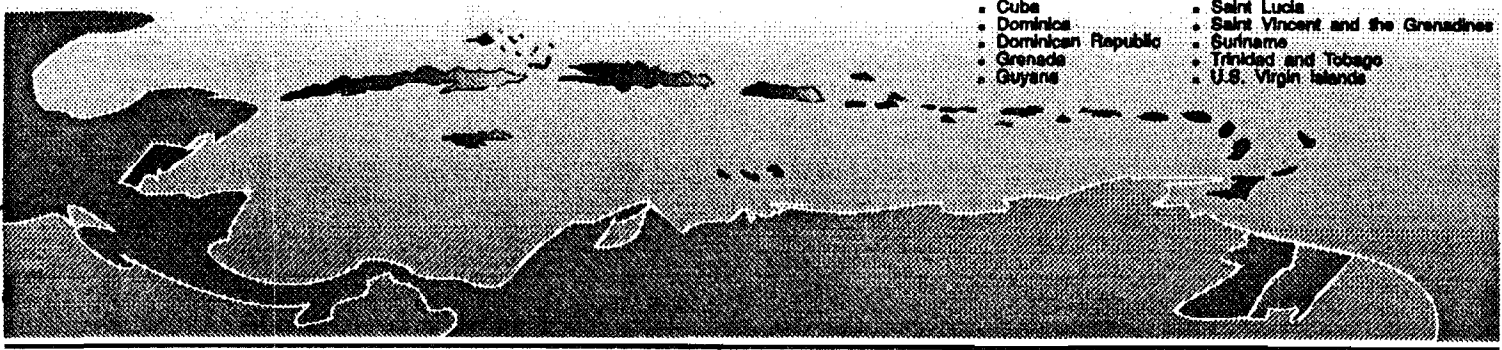


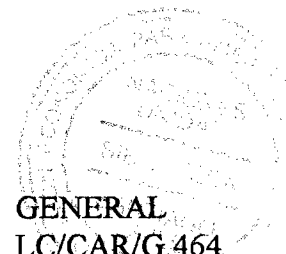
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- Antigua and Barbuda
- Aruba
- Bahamas
- Barbados
- Belize
- Br. Virgin Islands
- Cuba
- Dominica
- Dominican Republic
- Grenada
- Guyana
- Haiti
- Jamaica
- Montserrat
- Netherlands Antilles
- Puerto Rico
- Saint Kitts and Nevis
- Saint Lucia
- Saint Vincent and the Grenadines
- Suriname
- Trinidad and Tobago
- U.S. Virgin Islands



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**INTEGRATION AND CARIBBEAN DEVELOPMENT**  
*Reconciling regional policies with global trends*



UNITED NATIONS  
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN  
Subregional Headquarters for the Caribbean  
CARIBBEAN DEVELOPMENT AND COOPERATION COMMITTEE



## SYNOPSIS

Caribbean countries are re-evaluating their options for global economic interaction so as to reconcile regional policies with global trends. Historically, emphasis was placed on Europe, deriving from the colonial relationship, but since the second World War influence has inexorably shifted to North America. Recently overshadowing this shift was the rapid development of the global economy, to which countries were reacting by either seeking the broadest multilateral relationships, in accordance with the principles of the GATT/WTO, or by coalescing into more narrowly defined regional economic blocs. The first option, encouraged by new technologies, held the possibility for smaller constituencies and economic clusters to interact independently across national boundaries, creating a finely patterned mosaic of diverse actors and interests associating for mutual benefit. The second option held the potential either to quicken the pace of change toward the first global option, or, conversely, to increase economic competition between a few polarized regional blocs, which sought to incorporate larger clusters of nation-States operating in tandem under the control of a dominant partner. Smaller countries might be greatly favoured under the first option but ran the risk of being smothered under the second.

Attitudes to these choices were shaped by the Caribbean integration movement, which has dominated Caribbean intellectual thinking and consequently the policy calculus, since independence. CARICOM evolved from the West Indian Federation and continued to be strongly influenced by developments within the European Union. However, it was also deeply rooted in Caribbean nationalism. This prompted the adoption of policies to insulate regional economies from the vagaries of global developments, but they have failed to do so. Instead they have reduced the capacity of member countries to adapt to and benefit from the most dynamic global developments.

Dissatisfaction with the pace of domestic development and the aforementioned global developments have prompted a review of the West Indian development paradigm, which has integration at its core. The recommendation of the West Indian Commission was for a twin track policy, to deepen the CARICOM single market and economy and to widen its economic relations, notably to countries bordering the Caribbean Sea, through the ACS. Yet as the implications of deepening were explored several policies of the Common Market had to be abandoned as being inconsistent with programmes at the national level. Moreover, the creation of NAFTA and the mooted FTAA seem to have garnered a consensus that CARICOM countries should strive toward a wider hemispheric relationship.

Current developments, therefore, prompt questions as to: the changes which CARICOM will need to make to its current economic arrangements; whether CARICOM countries can qualify as a group for entry to the FTAA and if not, what are the implications of individual entry for CARICOM; the state of relations with the EU, including the current preferential arrangements; the role of the ACS given the current impetus to the FTAA; whether the FTAA is a means, and if so whether it is the most appropriate means, to integrate into the global economy; and last but by no means least, whether the FTAA will materialize and if not, what alternative exists for Caribbean countries.

Despite the seeming complexity of choice, all options, to a greater or lesser extent, point in the same direction, towards increased global interaction. The CARICOM model must itself now adapt to these developments, since it has in the past biased overall economic policy in favour of common market activities, which constitute only a small fraction of the total economies of members and this is unlikely to expand substantially. Policy should, therefore, focus on sustaining macroeconomic equilibrium and selecting policy tools which will facilitate smooth transition into global markets for goods, services and capital, for this is the option most likely in the long run to maximize the welfare of CARICOM people. This choice will have repercussions for CARICOM economic policy, however, since the goal of a single sheltered market and economy, as currently conceived, are not consistent with it.

Yet, CARICOM is essentially about two goals. The first is to strengthen the bonds which have historically existed among its peoples. The second is to fulfil their hopes and aspirations for full employment and improved standards of work and living. Ample scope remains for CARICOM to continue its programmes of functional cooperation and policy coordination. While these activities are directed mainly to its first goal, they also provide a vital input to the second. They will become crucial as globalism builds its momentum and people seek their cultural moorings, for it is only if Caribbean people can define their uniqueness and bring it to bear on the process of global integration that they will be able to secure their best interests and save themselves from being smothered. In order to secure the second goal, however, CARICOM will need to better reconcile its common market policies with global trends so as to prepare its members for effective global partnership.



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## INTRODUCTION

The English-speaking Caribbean is re-evaluating its options, so as to reconcile regional policies with global trends and adapt its economic relations to the requirements of the twenty-first century. It must make substantial progress by the end of this decade. After 400 years of close economic and political ties with Europe, World War II signaled a major shift, in economic and security matters and subsequently in norms and cultural values, away from Europe and into the sphere of interest of North America. Yet even as policy makers accustomed themselves to this shift, the vague outlines of an emerging global economy were discernible, to come sharply into focus over the last decade. The options available to Caribbean countries have never been as wide and yet, simultaneously, the stakes resting on a correct decision have never been as high.

Several developments accelerated the transition away from Europe, notably: geographic proximity and the perception by the United States that it had a major security interest in the Caribbean; the severing of direct constitutional ties with Britain on the attainment of independence; development of strategic mineral resources, mainly bauxite and petroleum, by United States and Canadian firms, for use in the United States and Canada, respectively; the growth of tourism services, sold mainly to North America; close communications and media links with the United States; a change in the direction of migration and return remittances away from the United Kingdom to North America; the strengthening of trading arrangements between the United States and the Caribbean, via the CBI<sup>1</sup>; the joint agreement between the CARICOM countries and Canada via CARIBCAN; the formation of the North American Free Trade Area (NAFTA), which incorporated Mexico, setting the precedent of a comprehensive free trade arrangement with a developing country in the hemisphere; and latterly, proposals for a Free Trade Area of the Americas (FTAA) to encompass most countries in the hemisphere in a comprehensive relationship, which goes beyond the free movement of goods and services, by the year 2005.

Not surprisingly, a shift of such fundamental importance was not a smooth process, nor was the path clearly signposted. Other developments seemed to reinforce traditional relations, such as: the British Commonwealth, the effective rearguard action of the gradually withering British Empire; the West Indian Federation, an attempt by the British to permanently link their Caribbean colonies together; thus sowing the seeds for subsequent Caribbean integration attempts; successive Lomé conventions, codifying preferential arrangements to former Caribbean colonies on the accession of Britain to the European trading bloc; and finally, the evolution of European integration itself, with the strong example it set for CARICOM.

Clear understanding of developments was further complicated by a third factor, which was the initially imperceptible coalescence of the global economy. This was driven by advances in information technology, a convergence of national patterns of demand, more intense competition and the easing of restrictions on trade and investments (ECLAC 1993, 1994). While its contours were at first only vaguely discernible, the pace of its subsequent growth was such as to catch many by

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<sup>1</sup>

Currently, North America absorbs 50 per cent of CARICOM exports and Europe just under 25 per cent.

surprise. Understanding the process of globalization and strategically positioning oneself to take advantage of its enormous potentials conferred a significant advantage. The key beneficiaries from this process were firms which focused on global goals and not simply on their earnings in each country, while those firms, sectors or countries which were slow to adapt to the changed circumstances suffered relatively smaller economic gains, or were driven out of the market.

Heightened competition set in train several defensive mechanisms. One was increased protectionism. Another, a potential variant of the first, was the polarization into regional blocs. Greater economies of scale and scope within the confines of a nation-State like entity, so as to become more competitive, provided one of the rationale for regional blocs. Accordingly, two contrary tendencies were evolving in tandem, globalization and the polarization into regional blocs. Globalization was modifying the all pervasive power of the large nation-State. Smaller constituencies and economic clusters were being encouraged by new technologies to interact independently across national boundaries, creating a finely patterned mosaic of diverse actors and interests associating for mutual benefit. The polarization into regional blocs was moving in a contrary direction, seeking to incorporate larger clusters of nation-States, operating in tandem under the control of a dominant partner. Uniform behaviour was sought via rigid frameworks of rules and regulations as blocs girded themselves for possible global competition to be played out between a few large actors. Small Caribbean communities seemed not to recognize the implications of these developments, for while the first trend seemed to nurture smaller communities of interest, the latter held the potential to smother them.

While the shift in influence from Europe to North America seemed inexorable to some in the Caribbean, contrary developments, the traditions and habits of emulation and existing institutional linkages all served as ties to bind others to the associations and habits of the past. These sentiments, in turn, spawned new mutants and institutions to house and safeguard traditional values. West Indian integration, the most notable of these, has somehow managed to produce a seamless blend between the distinctly contradictory values inherent in British colonialism and West Indian nationalism and produced an amalgam which has managed to secure a powerful hold on regional values over the second half of this century.

Several elements contributed to the West Indian world view, although a backdrop for all of them was provided by the painful awareness of a long period of external exploitation via colonialism. Elements in the foreground included a shared heritage, traditions and cultural practices. Another, made especially valuable because of the recent attainment of independence, was a strong desire for autonomy, to be realized in the capacity to shape one's own destiny and frame one's own policies. As the predominant importance of the North American economy became felt in the region, both from the objective facts outlined above and from its increasing policy influence, reaction to frustrated autonomy took the form of a bias among some elites against external developments. The third element was a deep sense of vulnerability and insecurity, deriving from what was perceived to be the inherent disadvantages inflicted upon them by their small size. These elements, taken together, strengthened the sentiments for "sticking by one's own" and for the application of policies to insulate



the group against a hostile external environment. As self-reliance was espoused, self-sufficiency was the (vain) hope, all wrapped into the concept of West Indian regionalism and independence.

Regional integration has provided a permanent backdrop against which development policy was conducted in the English-speaking Caribbean, ever since it achieved self-government. So embedded in the regional consciousness is the concept, that any conception of development which downplays it is considered to be inappropriate to Caribbean needs, or worse, to be disloyal to Caribbean values. It has become an article of faith. This was illustrated in the Chairman's preface to the Report of the West Indian Commission, which stated, "...CARICOM is not something apart; it is all of us; 'is we'!" ("Time for Action", The Report of the West Indian Commission; P. xxi).

Yet despite this universal acceptance, or perhaps because of it, "integration" meant different things to different people. For some it was a mechanism to reinforce a strong sense of kinship and cultural affinity. For others it satisfied a more pragmatic need, that of creating a larger single market space where economies of scale were better able to flourish in conjunction with a larger and more diverse pool of resources, for the more efficient production of goods and services. For still others it was an all encompassing set of activities, a unitary state where the aforementioned, socio-cultural and economic factors, were joined together with a political apparatus that reduced the disadvantages of very small size, particularly the dangers of weak national security, a perceived nascent political instability and narrow parochialism which mitigated against the impersonal rule of law.

Supporters of integration favoured it for one or all of the above reasons. Yet integration ran the risk of being all things to all people, having a broad measure of general support, yet with weak commitment to concrete actions as the broad consensus unravelled on the narrower interests demarcated by specifics. For example, some saw it as a stepping stone to provide a progressively larger window on the world; while for others, it was the necessary minimum concession to a wider community that would sustain the more familiar in-group. For most, it provided a haven of protection, but while for some this was a means, for others it was the goal.

Given its well-springs, the West Indian world view experienced difficulty in adapting itself to an integrating global economy and defining a meaningful path for Caribbean countries as they prepared themselves for the twenty-first century. On the contrary, since independence it has superimposed an essentially inward-looking philosophy on a region which has been, by virtue of necessity and then by tradition, outward-looking and open. Despite a great deal of intellectual and physical effort and changed perceptions, the reality of this outwardness was not significantly reversed by integration. Instead, the most carefully laid policies for economic integration have foundered. More significant, however, was the policy confusion created at a turning point in Caribbean history when the old instincts might have served to anticipate and lead the region quickly toward the emerging opportunities in the global market.

The Caribbean development model is at a turning point. It must strengthen its arrangements to satisfy those deeply felt psychic needs for unity and mutual sustenance which exist in the region. It must strengthen its cultural attributes and preserve its ethnic, racial and linguistic identity. It must

develop the unique qualities and strengths of the region and build sufficient self confidence so that Caribbean people can face the future and the wider global community with optimism. Finally, it must refashion its economic relations and reconcile regional policies with global trends.

Recognizing their small size and limited power, Caribbean countries must rely on their wisdom to choose, from the several global tendencies, a set of relationships which will minimize their marginality and allow them to maximize their potentials. "The only way small countries can survive the future is.. (in).. a world of polylogue, where many diverse identities can be expressed, where racial, ethnic, cultural, linguistic and religious identities are mutually secured. In such a world it would not matter whether one lived in a small nation or a large nation, for we would have to create a different discourse of power - one from which dominance has been removed as the arbiter of what is possible and permissible" (Sardar, P888) . The future relations of Caribbean countries need not be based on a sense of inferiority and the need for preferences. They need not be based on beggar-thy-neighbour policies or on the instinct that trade is a zero-sum game. It is not inevitable that these countries will be constricted into one or other economic bloc. Rather, future economic relations could be fashioned on a set of universalistic criteria open to the risks and opportunities of the wider global community and benefiting from greater transparency and more clearly defined rules of the game. For this is the framework most likely to preserve the interests of small actors.

The remainder of this paper is divided into four sections: a restatement of the goals and objectives of CARICOM; an outline of the evolution of the integration movement from Chaguaramas to Grand Anse; a recording and analysis of developments since Grand Anse to the present; and a discussion of the options facing CARICOM countries for managing their future economic relations.

## GOALS AND OBJECTIVES

Integration has a long and respectable history among the CARICOM countries<sup>2</sup>. In the past, it evolved concurrently and in uneasy symbiosis with, national independence. Indeed, the West Indies Federation predated independence, existing from 1958-1962, but met its demise when some of its members chose national independence over it. By 1965 three countries decided to make another attempt at cooperation, with the signing of the Dickenson Bay agreement and by 1966 The West Indies Associated States was formed. In 1968 the East Caribbean Common Market (ECCM) had evolved from it and in the same year, 12 English-speaking countries signed an agreement to create the Caribbean Free Trade Association (CARIFTA). Further momentum was given to the Integration movement in 1973, with the signing of the Treaty of Chaguaramas, which had the objective of creating the Caribbean Community and Common Market (CARICOM)<sup>3</sup>. Despite this heady pace of events and the impossible timetable for implementation, these efforts were considered by some to reflect a deficit in ambition and strategic timidity (Time for Action, P 46-56).

The objectives of CARICOM, as set out in Article 4 of the Treaty of Chaguaramas, were as follows:

- (a) The economic integration of the Member States by the establishment of a common market regime (hereinafter referred to as "the Common Market") in accordance with the provisions of the Annex to this Treaty with the following aims:-
  - i. The strengthening coordination and regulation of the economic and trade relations among Member States in order to promote their accelerated harmonious and balanced development;
  - ii. The sustained expansion and continuing integration of economic activities, the benefits of which shall be equitably shared taking into account the need to provide special opportunities for the Less Developed Countries;
  - iii. The achievement of a greater measure of economic independence and effectiveness of its Member States in dealing with States, groups of States and entities of whatever description;
- (b) The coordination of the foreign policies of Member States; and
- (c) Functional cooperation, including:
  - i. The efficient operation of certain common services and activities for the benefit of its peoples;

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<sup>2</sup> A detailed outline of the sequence of events, with appropriate dates, is provided for the interested reader in two recent ECLAC publications, entitled: "Evolution of Caribbean Economic Integration - A Brief Review", LC/CAR/G.424 of 11 July 1994 and "Development of the Integration Processes in Latin America and the Caribbean", Chapter VI, LC/G.1527, respectively.

<sup>3</sup> The Common Market was open to participation by Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts/Nevis-Anguilla, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. The Bahamas subsequently became a member of the Community though not of the Common Market while Suriname was admitted to both in 1995.

- ii. The promotion of greater understanding among its peoples and the advancement of their social, cultural and technological development;
- iii. Activities in the fields specified in the Schedule and referred to Article 18 of this Treaty<sup>4</sup>.

The OECS<sup>5</sup>, building on the foundations of the West Indies Associated States Agreement, was established in 1981. Its objectives were set out in Article 3, as follows:

1. The major purposes of the Organization shall be:
  - (a) To promote cooperation among the Member States and at the regional and international levels having due regard to the Treaty establishing the Caribbean Community and the Charter of the United Nations;
  - (b) To promote unity and solidarity among the Member States and to defend their sovereignty, territorial integrity and independence;
  - (c) To assist the Member States in the realization of their obligations and responsibilities to the international community with due regard to the role of international law as a standard of conduct in their relationship;
  - (d) To seek to achieve the fullest possible harmonization of foreign policy among the Member States; to seek to adopt, as far as possible, common positions on international issues and to establish and maintain wherever possible, arrangements for joint overseas representation and/or common services;
  - (e) To promote economic integration among the Member States through the provisions of the Agreement Establishing the East Caribbean Common Market; and
  - (f) To pursue the said purposes through its respective institutions by discussion of questions of common concern and by agreement and common action.
2. To this end the Member States will endeavor to co-ordinate, harmonize and pursue joint policies particularly in the fields of:-
  - (a) External relations including overseas representation;
  - (b) International trade agreements and other external economic relations;
  - (c) Financial and technical assistance from external sources;
  - (d) International marketing of goods and services including tourism;
  - (e) External transportation and communications including civil aviation;
  - (f) Economic integration among the member states through the provisions of the agreement establishing the East Caribbean Common Market;

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<sup>4</sup> Article 18 refers to Functional Cooperation

<sup>5</sup> The OECS was open to participation by Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts/Nevis, St. Lucia, and St. Vincent and the Grenadines. The British Virgin Islands was subsequently admitted as an observer.

- (g) Matters relating to the sea and its resources;
- (h) The judiciary;
- (i) Currency and central banking;
- (j) Audit;
- (k) Statistics;
- (l) Income tax administration;
- (m) Customs and excise administration;
- (n) Tertiary education including university;
- (o) Training in public administration and management;
- (p) Scientific, technical and cultural co-operation;
- (q) Mutual defense and security; and
- (r) Such other activities calculated to further the purposes of the Organization as the Member States may from time to time decide.

## FROM CHAGUARAMAS TO GRAND ANSE

In both instances the scope of the respective agreements extended well beyond its centre-piece, which was the Common Market. Essentially, this set of ubiquitous activities, mainly relating to the coordination of foreign policies and the spawning of functional cooperation, fall outside of the purview of this paper. The Caribbean Development Bank (CDB) and the University of the West Indies (UWI) solidly underpin development efforts in the region. Other areas of functional cooperation include finance, health, education, disaster preparedness, and so on. These activities had all evolved to serve the membership well<sup>6</sup>.

It was the goal of economic integration, through the Common Market, which appeared at Article 4 (a) of the CARICOM treaty and Article 3 1.(e) of the treaty establishing the OECS, which proved the most elusive, difficult to implement and upon which judgement of the success of both treaties tended to rest. It was also the area which greatly complicated the policy calculus, since the Common Market interposed a third layer of decision making which needed to be consistent with the domestic and foreign policy of member States.

In view of the elevated hopes which its proponents had for the Common Market, the sense of disappointment experienced at its lack of progress at the Grand Anse Meeting 1989, and subsequently by the West Indian Commission, was not entirely surprising. Given their small size and the similarity in their factor endowments, the range of products which CARICOM members could meaningfully exchange among themselves was limited. Accordingly, the percentage of trade which CARICOM countries conducted among themselves seldom exceeded 10 per cent of merchandise trade<sup>7</sup>.

This proportion of regional trade showed little prospect of secular growth. Instead it manifested an unusually high degree of vulnerability to the tempo of external earnings in the member countries, in part because several import substituting products were being inefficiently produced, some being net users of foreign exchange. A second factor was the beggar-thy-neighbour philosophy which favoured the in-group at the expense of outsiders. In reasonably good times such attitudes could be used to divert trade from third countries into the Common Market. However, as economic activities contracted, the same attitudes worked against the Common Market to further divert trade from the Common Market to national producers. Common Market provisions were accordingly breached with licences, quantitative restrictions or foreign exchange controls applied to limit trade with regional partners.

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<sup>6</sup> Exceptions might be found in initiatives to provide common air and sea transportation services. These suffered the fate of many other public sector organizations in the region during the 1980s and 1990s, of being inefficiently run and demanding subsidies from the public purse, which could not be sustained in a period of declining revenues. Accordingly, they were either closed or divested.

<sup>7</sup> If petroleum products were excluded CARICOM trade fluctuated between 5-8 per cent of the total.

The tempo of export earnings of the three largest economies was subject to large fluctuations in the period from the mid- 1960s into the 1980s. At the beginning of this period, the bauxite producers, Jamaica and Guyana, experienced a rapid growth in export earnings. This in turn increased the tempo of domestic economic activities, financing expansionary public sector policies and several import substituting industries, justified under various guises, including employment creation. By the mid- 1970s bauxite/alumina earnings began to contract and Jamaica and Guyana were simultaneously faced with greatly augmented energy costs, consequent on the first oil price increase in 1973. Conversely, Trinidad and Tobago obtained earnings windfalls, the 1973 and 1979 oil price increases providing strong positive impulses to government revenues and the balance of payments and stimulated boom conditions until the early 1980s. Here also the windfall stimulated public and private sector activities, until about 1982 when economic expansion became dependent on fiscal and external deficits. These economic shocks together with inadequate policy responses created the need for rapid adjustment (ECLAC, 1993).

Adjustment was slow and public deficits difficult to reduce, so that persistent borrowing rapidly increased the debt. In Guyana, the external debt moved from 35 per cent of GDP in 1970 to 122 per cent in 1980 and about 300 per cent by 1986. In Jamaica, the external debt stood at 16 per cent of GDP in 1970, 65 per cent in 1980 peaking at 178 per cent 1985. Both countries experienced a significant contraction in product and the standard of living of their people. The accumulated debt continued to have a debilitating effect on these economies a decade later.

In Trinidad and Tobago, the aftermath of the oil boom saw an economic contraction of 33 per cent between 1983-1989, with unemployment doubling over the same period. External debt grew somewhat less precipitously, from under 10 per cent of GDP in 1980 to about 30 per cent in 1988, but subsequent debt servicing efforts were to greatly complicate economic management here also. The fourth of the CARICOM MDCs, Barbados, was spared the magnitude of adjustment required by the minerals exporters, simply because it did not benefit from a minerals boom and did not emulate government profligacy elsewhere. Nevertheless, by the late 1980s that economy was also in disequilibrium and required an adjustment programme of its own, although the policy shift was not as complete in Barbados as in the other MDCs (ECLAC 1993). In sum, all four MDCs experienced external shocks and needed new policies to improve their export earning capacity. In several instances these policies conflicted with the traditional West Indian model of development.

Developments in the OECS were somewhat different. The statutes of their joint Central Bank, the ECCB, limited the scope for member governments to pursue expansionary fiscal policies when the economy was dormant. This policy was beneficial for the OECS countries, a fact not lost on other CARICOM members, some of which sought to emulate it under common currency arrangements. The main export crop for most of them, bananas, was also covered by a preferential trade regime with the EU, under which production flourished. Finally, tourism services developed rapidly in most of these countries so that economic performance as a whole was buoyant in this period. This relative success reduced the urgency for policy reform, however, so that these countries remain dependent on banana preferences which have a finite life. Several policy reforms have become necessary.

By the end of the 1980s trade liberalization was being reintroduced by those countries which experienced the most severe economic disequilibrium. For them, as for all small economies, hard currency earnings played a pivotal role in their economic expansion and became especially critical if they were to meet their outstanding external debt obligations. Improved export performance was, therefore, the means to establish equilibrium and achieve sustained growth. Policies to favour the production of tradable goods and services over non-tradables were applied, beginning with measures to increase economic efficiency and reduce the various policy biases against export activities. These began with restrictive fiscal and monetary measures and realignments of the real exchange rate. Subsequently, exchange rate regimes were often modified to ensure that the market would play a greater role in determining rates than hitherto, in the hope of avoiding the gross misalignments which had developed when rates were administratively fixed. Once domestic demand was contained, these governments felt sufficiently confident to focus on several medium-term policies, such as the foreign investment codes and deregulation of the financial system.

Attention was also placed on the trade regime, the emphasis being to eliminate the remaining anti-export biases inherent in the tariff structure and the administrative arrangements governing trade. But the pace of domestic reform was uneven in some instances since existing CARICOM policies, based on a consensus, habitually inhibited the pace of change in those areas covered by common regional positions. In several instances, trade policies lagged other domestic macroeconomic policies and created tensions with them. Undertakings were frequently ignored or tardy in their implementation, so that frustrations developed within the regional grouping among those wishing to push ahead with economic reform (ECLAC, 1995).

Tensions, therefore, developed between domestic adjustment policies, increasingly outward looking and CARICOM policies still based essentially on import substituting policies. These tensions came to a head in 1989 in Grand Anse and prompted a new look at the integration movement by the West Indian Commission.



## GRAND ANSE - THE TURNING POINT

The CARICOM heads of government, at their tenth meeting at Grand Anse, Grenada, in July 1989, acted to give new impetus to CARICOM<sup>8</sup>. They were motivated in almost equal measure by concerns about poor economic performance at home, failure by CARICOM to achieve its stated objectives and the turn of events internationally, which seemed to threaten CARICOM, on one hand, and create new uncertainties and insecurities for its member governments, on the other. In their declaration, the Heads asserted "...the need to work expeditiously together to deepen the integration process and strengthen the Caribbean Community in all its dimensions to respond to the challenges and opportunities presented by the changes in the global economy" (CARICOM, 1989). They agreed to several follow-up activities, notably, the establishment of a single market and economy, identifying 13 measures which would need to be completed by 1993<sup>9</sup>. They also proposed the establishment of an Independent West Indian Commission to advise them on advancing the goals of the Treaty of Chaguaramas.

The 13 points to be addressed were as follows:

1. The three common market instruments, the Common External Tariff (CET), the Rules of Origin, and a Harmonized Scheme of Fiscal Incentives were to be revised, agreed and effective by January 1991;
2. Strengthening of customs cooperation and administrations for the move to a customs union;
3. Signature of the agreement establishing the CARICOM Industrial Programming Scheme (CIPS), by September 1989;
4. Enactment of legislation to give effect to CIPS and the CARICOM Enterprise Regime (CER), by January 1990;
5. A scheme for the movement of capital, starting with the cross listing and trading of securities on existing stock exchanges;
6. Establishment of a regional equity/venture capital fund;
7. The CARICOM Multilateral Clearing Facility (CMCF), strengthened and re-established for current and capital transactions, by December 1990;

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<sup>8</sup> This section evaluates the period between the Tenth Heads of Government Conference in July 1989 and the Sixteenth Heads of Government Conference in July 1995.

<sup>9</sup> July 1993 was symbolic, since it represented 20 years after the Treaty of Chaguaramas had created CARICOM.

8. Further arrangements for strengthening consultation and cooperation on monetary, financial and exchange rate policies, by July 1990;
9. The removal of all remaining barriers to trade, by July 1991;
10. The immediate activation of article 39 of the Annex of the Treaty of Chaguaramas, in order to promote consultation, cooperation and coordination of policies of the macroeconomic, sectoral and project levels;
11. Free movement of skilled and professional, as well as contract workers, on a seasonal or project basis, by January 1991;
12. Immediate and continuous action to develop a regional air and sea transportation system, by 4 July 1992; and
13. Greater collective effort at joint representation in international economic negotiations and the sharing of facilities and offices to this end, with immediate effect.

The West Indian Commission held its first meeting in April 1990. It submitted a progress report to the heads of government in July 1991 and its final report to the heads of government in 1992. Among its recommendations were proposals for: the creation of single market and economy; shaping CARICOM's external relations, especially for widening its relations, to the non-CARICOM Caribbean, Central and South American countries; and, the establishment of several structures for strengthening unity in the region, one of which, the establishment of a permanent commission to oversee the implementation of Community decisions, was not approved (Time for Action, 1992).

The old dichotomy which had long existed between deepening integration and widening it was finessed by the Commission, which stated that they were symbiotic. The call for a single market and economy, (or Economic Union), was seen as the means to create some critical mass in resources and in negotiating capacity, especially as it related to the next major initiative of CARICOM, which was to widen its relations. The report stated that "The West Indies must both deepen the process of integration to which it has set its hand and reach out to the wider Caribbean at appropriate levels of cooperation" (Time for Action, P 443).

**THE SINGLE MARKET AND ECONOMY - DEEPENING CARICOM**

After the passage of 16 years since the Treaty of Chaguaramas was signed, the single market was still some way from being achieved and still ill-defined. In 1989 CARICOM was a mixed structure, containing elements of a Free Trade Area and a Customs Union although achieving complete compliance in neither. Given that the bald proposal for a single market and economy could be interpreted to lie somewhere on a continuum between an economic union and total economic integration and since political union had been explicitly ruled out previously, a process of sensitivity analysis was necessary to find a politically acceptable set of outer limits to fit the mandate.

### **Elements of the single market and economy**

The West Indian Commission gave some flesh to the concept, as deemed appropriate to CARICOM circumstances, as follows: "Technically a single market involves a market structured and functioning to a large extent as if it were within the borders of a single country. There must therefore be the freedom of movement of goods, services, labour and capital and supportive fiscal and monetary measures and administrative arrangements.... while many policy functions may be carried out at the national level, these should be conducted within a coordinated policy framework at the regional level" (Time for Action, P 104).

The CARICOM Secretariat also engaged in consultations of its own, to define an acceptable framework for its membership (CARICOM, June 1991). It was eventually agreed that the progression to a single market would proceed in the following steps: free trade area; customs union; the single market; and the single economy (CARICOM, June 1992).

**The free trade area** would require several measures for its completion. These included the elimination of all remaining tariffs, quotas, and other non-tariff barriers to CARICOM trade; the acceptance of common standards by the trading partners, to ensure acceptability of the goods traded; the adoption of rules of origin; improved transport for goods and factors; and, the promotion of regional production (CARICOM, 1992).

**The customs union** would be consolidated with the implementation of:

- (a) A revised CET;
- (b) A common trade policy to liberalize trade for the internal market, to develop joint representation in international negotiations and develop consultation and coordination arrangements for bilateral agreements, within a common agreed framework.
- (c) Uniform customs laws and simplified and harmonized customs procedures;

(d) Expanded trade and economic relations through bilateral or membership arrangements with Central or South American countries to widen the market for goods and services;

(e) The issue of the free circulation of extra-regional goods and services, requiring the regional collection and sharing of customs revenues, was deferred in view of the high level of external trade which entered each island directly at established ports through their own customs facilities.

**The single market** would need the following additional measures to ensure its completion: free movement of services; financial integration, including the free movement of capital; the free movement of labour; rights of establishment, which conferred national treatment on regional investment.

Finally, **the single economy** would require the following additional measures for its completion:

(a) More extensive coordination of monetary and fiscal policies relating to exchange rates, interest rates, commercial banking, fiscal policies, and the re-establishment of the regional clearing arrangements, in the absence of monetary union;

(b) Deepened economic policies via consultation and coordination on both domestic and external economic policies, harmonization of foreign investment policies, laws governing intellectual property, anti-dumping etc., schemes for technology development acquisition and transfer;

**Further supporting measures** were proposed, which would be needed to better manage the process leading to the single market and economy. These would cut across all stages of the process and included: a scheme for disadvantaged regions; a publicity campaign to involve people at all levels; institutional reforms to improve decision-making and better coordinate policy at the national level; measures to improve the functioning of the Secretariat; and arrangements to better coordinate with the social partners.

These measures went far beyond the original treaty as noted by the West Indian Commission, "The terms of the Treaty (of Chaguaramas) are not so much outdated as in need of renewal or expansion. New imperatives require new responses and a new framework in which they can be accommodated" (Time for Action, P 19-20). It was stated that after 20 years there was need for a successor treaty.

### **Progress towards the single market and economy**

Since Grand Anse the programme of work defined there and refined by the West Indian Commission and successive CARICOM meetings, had constituted CARICOM's priority work programme. Work relating to the single market and economy tended to coalesce into three clusters of activities: the free trade of goods services and factors; the payments regime and capital movements; and the maintenance of a common economic stance to the rest of the world.

(a) The free trade of goods, services and factors

With respect to the first cluster, initial focus was on the removal of all barriers to intra-CARICOM trade in goods. This had been substantially achieved, although three countries were still to fully comply. One country still needed to implement legislation to abolish licences for CARICOM goods while the other two still retained licences for some regional agricultural products. While mandatory common standards to govern the quality of traded goods had been prepared by the secretariat, some countries were not yet prepared to enforce them, so that they would only be voluntary, at this stage.

The issue of improved transport remained unresolved. Initially it was assumed that this would be best achieved by CARICOM member countries through public sector financed and controlled transportation arrangements. This proved not to be viable, since large government subsidies were necessary for their operation. It remains to be seen whether better arrangements can be made by regional institutions, such as the CARICOM Export Development Council (CEDC), with private operators. The regional airlines had been, or in the case of the Leeward Islands Air Transport Company (LIAT), was about to be, privatized. The West Indies Shipping Corporation (WISCO), the regional shipping company was insolvent, with a decision made by CARICOM to terminate its activities in July 1992. Outstanding debts by member governments had to be repaid, however, before the books could be closed.

Efforts were under way to promote regional trade. The Caribbean Export Development Programme (CEDP), had started several activities, including the publication of a Directory of Caribbean Exporters; the circulation of a Business Opportunities Bulletin; and the preparation of market briefs outlining the procurement systems in member countries and identifying trade opportunities for regional goods and services in the government sectors. It was also proposed that a clearing house would be established to deal with national tenders across the region. Studies were also to be conducted to suggest ways to improve trade data in the region and to determine the impact of the FTAA on CARICOM production. Finally, a "Buy Caribbean" programme had been launched in several CARICOM countries and the "Buy Caribbean" logo instituted. This seal of approval had already been awarded to some CARICOM originating products which met approved standards.

A revised CET was not achieved in 1991, as mandated at Grand Anse. In fact the original CET had not yet been implemented by all countries at that date. Nevertheless, by mid-1995 the revised CET had achieved, more or less, full compliance. Similarly, the Rules of Origin did not meet the deadline, but compliance has now been achieved. The CET was guided by the principle that imports which competed with regional goods should incur higher tariff rates. Also, final consumption goods would incur higher rates than inputs or capital goods. Nevertheless, the tariff was riddled with exemptions.

The revised CET was divided into four stages, taking effect in January 1993 and gradually reducing tariffs in 1995, 1997 and ending with a tariff range of between 5-20 per cent beginning 1998, for all goods except agricultural products. It was, however, a compromise and no sooner had it been

**Table 1**  
**CARICOM - COMMON EXTERNAL TARIFF RATES**

CATEGORIES	1-1-1993 to 31-12-1994	1-1-1995 to 31-12-1996	1-1-1997 to 31-12-1997	1-1-1998
Agricultural Inputs	0	0	0	0
Non-competing primary inputs	5 (LDCs 0-5)	5 (LDCs 0-5)	5 (LDCs 0-5)	5 (LDCs 0-5)
Non-competing intermediate inputs	"	"	"	"
Non-competing capital inputs	"	"	"	"
Competing primary inputs	20	15	10	10
Competing capital goods	"	"	"	"
Selected imports	"	"	"	"
Competing intermediate inputs	25	20	15	15
Non-competing final goods	25	25-30	20-25	20
Agro-industry	30-35	25-30	20-25	20
Garments	"	"	"	"
General manufactures	"	"	"	"
Agriculture	40	40	40	40
LIST A	Suspended rates	Suspended rates	-	-
LIST B	Suspended rates LDCs	Suspended rates LDCs	-	-
LIST C	Minimum rates	Minimum rates	Minimum rates	Minimum rates
LIST D Parts I and III	Suspended rates LDCs	Suspended rates LDCs	-	-
Safety	0	0	-	-
Cost of living	0-20	0-20	-	-
Socio-economic and socio-cultural	"	"	-	-
<b>Range of CET (Agriculture)</b>	<b>0-40</b>	<b>0-40</b>	<b>0-40</b>	<b>0-40</b>
<b>Range of CET (Non-agriculture)</b>	<b>5-35</b>	<b>5-30</b>	<b>5-25</b>	<b>5-20</b>

Source: CARICOM, October 1992

agreed than pressure was being placed for a review of its terms. Attitudes to protectionism in the region were varied and evolving. Some were concerned about the cost-of-living effects of the tariff. Some were concerned with the bias it created against export activities, many believing that the CET still accorded too much protection and needed to fall further. It was also believed that the dispersion between tariff categories was too great, so that several changes were needed if a smooth transition to the FTAA was to be achieved. Others were more reluctant to reduce tariff protection and even if willing to concede a reduction, maintained that it should not be done unilaterally, but rather bargained away for commensurate benefit in extraregional negotiations. Funding was being sought to prepare a modified tariff and to revise the Rules of Origin to make them compatible.

The policy towards regional production was addressed through the CARICOM Industrial Programming Scheme, the CARICOM Enterprise Regime and the Caribbean Community Programme for Agricultural Development (CCPAD). The CIPS was intended to take advantage of the critical mass being built within the Common Market, by identifying the most likely location for an industry deemed to be of high priority and intended for incorporation into the regional production structure. The CER would provide preferential tax and financial treatment and preferential tariff protection,

where necessary. The first regional projects were identified in 1985 but by Grand Anse little progress had been made. The declaration, therefore, proposed that legislation to give effect to the CIPS and the CER should be adopted by January 1990. Despite this mandate progress remained slow and the eighteenth Standing Committee of Ministers of Finance (SCMF) asked the Secretariat to undertake a review of the CER.

The Heads of Government in 1995 were informed that several developments had taken place which were removing the impediments to intraregional economic activity, impediments which the CER was intended to circumvent. Cross border investments were being made without the CER which was being generally ignored by regional investors. The Heads accordingly agreed to terminate the CER.

This set of measures comprised a bold attempt by regional bureaucrats to identify, locate and foster key regional industries. The policy was, however, formed without the participation of the private sector which would be expected to implement it and perhaps with less concern for viability than they might have wished. CARICOM policy had also shifted somewhat since these instruments were devised. Less emphasis was being placed on rigid programming of activities, the hope now being that the free movement of factors within the single market would provide sufficient incentives for regional investors to quicken economic activity. More significantly, early national policies incorporated several impediments to external investment, so that special measures were needed to negate them within CARICOM. With the liberalization of national economies, investment from all sources was being encouraged and this would benefit CARICOM investors equally. Liberalization was also expected to facilitate the movement of some factors from outside the single economy, primarily capital and skills.

Attitudes to the Harmonization of Fiscal Incentives had also evolved. The exercise to harmonize fiscal incentives had been long delayed with the latest timetable suggesting that a programme of harmonized incentives to industry should commence in 1997. Currently, the CARICOM position was that incentives need to be seen as a whole and in the context of overall harmonized macroeconomic policy (CARICOM, 1995). Concealed within that bald statement was a spectrum of conflicting views, on fiscal monetary exchange rate and industry policy.

In the past, tax holidays constituted a major policy tool in the region. Several activities were spawned under that policy and some investors developed a policy of skipping from one country to another on expiry of the holiday, shopping for the best conditions. Some still advanced the view that promising activities or sectors should be identified and the necessary fiscal and other supports provided to encourage them, though these should be controlled or harmonized to prevent competition between members. Others proposed that incentives, if any, should be horizontal, that is they should be systemic, helping to improve productivity across all sectors, for example through more sophisticated education or communications policies.

Incentive policies also had implications for trade policy since some incentives, for example subsidized inputs to certain export products would attract penalties under various bilateral trade

agreements and under the General Agreement on Tariffs and Trade (GATT). In this instance, it was necessary for the framers of new legislation to be alert to the probable outcomes of market widening.

Divergence also existed with respect to the fiscal and monetary policies applied by CARICOM members. Differences in the exchange rate regime were discussed elsewhere. Taxation regimes also differed with some countries shifting away from import taxes to Value Added Tax (VAT) regimes. In conclusion, while it made logical sense to analyze incentives programmes within the totality of macroeconomic policies, it was doubtful that any one set of macro policies would prove optimal, or acceptable, to CARICOM members at any one time. Seeking to reach identity was not only difficult but it also might prove to be inappropriate.

The free movement of CARICOM citizens covered two issues. Ease of travel within the region and the unfettered movement of labour. The West Indian Commission, among others, noted that the Caribbean, being a tourist region had facilitated travel by tourists from outside the region by giving them special treatment in arrival halls and by liberalizing the documentation required for entry to include drivers licences or identity cards, in some instances. Yet, CARICOM nationals had not been accorded any of these facilities and faced many impediments to travel within the region. The free movement of labour was also considered to be an integral part of the single economy, to which all countries subscribed. The West Indian Commission also suggested that members should strive for the goal of full freedom of movement within CARICOM (Time for Action, P 142).

With respect to "hassle free" travel, CARICOM nationals were granted special lines at airports in most countries and measures had been taken to sensitize customs and immigration and other officials to the policies relating to "hassle free" travel within CARICOM. Arrangements were also being made to allow those citizens of CARICOM member countries without passports to travel within the group, with CARICOM identity cards being considered for that purpose.

The other goal, the free movement of labour throughout CARICOM, seemed to be some way from being realized. Fears arose because of the high rates of unemployment which existed in some countries and the surges in population movement which might occur if restrictions were lifted. The Bahamas, which had faced a problem of illegal migration for some time opted out of the scheme from the start and most others have been reluctant to permit the unregulated flow of unskilled labour, despite the need for unskilled migrant workers in several countries. Progress was, however, being made on the free movement of skilled workers, beginning with the free movement of university graduates in 1996, subject to the acceptability of their credentials by the member State concerned. Progress was also being made in reducing impediments for workers providing certain services. Several countries were also in the process of adhering to the CARICOM Agreement on Social Security, which was to come into effect in 1996 and was intended to remove one disincentive to the movement of skills.

Several other issues relating to the opening of the regional market were pending, in many instances awaiting draft legislation before being considered for implementation. These included the framing of uniform customs laws. Currently customs officials met regularly and among other things,



arranged that the more glaring impediments to trade were removed, but harmonized customs procedures were awaiting the drafting and agreement of model legislation. A protocol was also being proposed to cover Establishment and the movement of Services and Capital. In the interim, discussions continued, to seek modifications to the Aliens Landholding Laws, to ensure that the term "alien" did not refer to the citizens of CARICOM countries.

(b) The payments regime and capital movements

With respect to the second cluster of issues, several actions had been initially proposed, many of which would be made redundant if monetary union was achieved or alternatively, if liberalized foreign exchange regimes were adopted at the national level. Monetary union, in turn would require a high level of coordination of macroeconomic policy. The Grand Anse Declaration began fairly modestly with a scheme for the movement of capital, starting with the cross listing and trading of securities. It also called for strengthened consultation and cooperation on monetary financial and exchange rate policies. The subsequent Heads of Government Meeting in Kingston in 1990, however, called on the Central Bankers, "to work towards the coordination of the establishment of a Monetary Union." This was later supported by the Report of the West Indian Commission, which called for the establishment of a common West Indian currency, administered by an Independent Monetary Authority. While the Commission recognized that all countries were not currently eligible for membership, it proposed that the authority could begin with those which qualified and others would converge to it once they met the criteria<sup>10</sup>. Also, the convertibility of regional currencies should be secured, at the earliest possible stage.

The desire for a common currency arose from two concerns. The first was the price and currency instability being experienced by some countries and the expectation that once they had achieved the convergence criteria, they would be locked into a union with a fixed exchange rate, thus securing stability, thereafter. The second concern was the high cost of transacting business in a region with several currencies, changing exchange rates and the sheer burden of exchange controls. This seemed to be viewed primarily from the perspective of the single market, although third country transactions which amounted to about 90 per cent of the total were equally handicapped.

After examining the issues, it was concluded that several constraints currently worked against the formation of a monetary union. These included: differences in exchange rate regimes; absence of convergence of current macroeconomic performance; the short-and long-term costs associated with monetary integration; foreign exchange shortages; and the political dimensions involved, including a durable affinity to national currencies. With respect to CARICOM payments, specifically the repatriation of currencies, it noted that a mixed arrangement would be necessary. Those countries with fixed exchange rates would continue to operate repatriation arrangements through the Central Banks. Those countries with liberalized foreign exchange regimes and floating exchange rates would

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<sup>10</sup> The convergence criteria were, essentially, a stable exchange rate for 36 months, stable foreign reserves equivalent to three months of import cover for 12 consecutive months without abnormal borrowing; and, manageable debt service ratios, projected as less than 15 per cent of exports.

conduct private transactions through the commercial banks, which would make their own arrangements for repatriation. For the latter countries, official transactions would be conducted through the Central Banks at a rate determined by the issuing country (Central Bank Task Force, January 1995).

It was, therefore, concluded that monetary union was not currently feasible. However, it was strongly recommended by the Standing Committee of Ministers responsible for Finance, that all member countries should restore currency convertibility and remove all exchange controls, and member States which still had such controls should specify a deadline by which they would be removed. The SCMF also endorsed the view that the economic indicators needed to monitor the convergence of macroeconomic policies should be expanded and that the Central Bank governors should be empowered to play a more active role in encouraging policy convergence. They also recommended more frequent consultations among CARICOM member States on macroeconomic policies and in setting macroeconomic targets.

Given the spectrum of opinions on the issue of monetary integration, it was perhaps understandable that the SCMF rendered an ambivalent judgement on Monetary Union. Central to the decision was the recognition that exchange controls should be removed on all transactions, and not only on the small fraction pertinent to the single market. Indirectly, the SCMF also seemed to be saying something about the exchange rate regime, which was that if one chose to operate with fixed exchange rates this should not be achieved by suppressing payments. Not only was a lack of policy convergence identified, but there was also evidence of divergence in economic performance (ECLAC, 1995). It was also recognized that the quantum of reserves necessary to operate a credible Caribbean Monetary Union (CMU), with fixed rates, in the face of growing liberalization of markets, might be quite considerable.

The Sixteenth Heads of Government Conference agreed to mandate the Council of Central Bank Governors to take a more active role in facilitating convergence by assuming some of the policy advisory functions which were envisaged for the CMU. Whether this policy to facilitate convergence would lead to the CMU remained uncertain. Given the wider range of economic indicators to be monitored, however, this move could greatly facilitate the other objective of coordinating macroeconomic policy and might, by virtue of pooling ideas, skills and experience and by subjecting short-term stratagems to scrutiny, hopefully improve the performance of all member countries.

Other priorities included the establishment of a legal and regulatory framework and institutional arrangements for the development of the regional capital market; the development and expansion of secondary markets for trading securities; and the adoption of a definition of the term "aliens" which would exclude CARICOM nationals.

Finally, the CARICOM CMCF was reviewed in the light of the foregoing developments. The CARICOM heads decided that it should not be reactivated or any other similar facility instituted, at this time. They also noted that current bilateral payments arrangements were considered to be satisfactory.

The CMCF had a checkered career, the idea being resuscitated at Grand Anse, where a deadline of December 1990 was set for its strengthening and reopening for current and capital transactions. The CMCF was established in 1977, to provide a device to give preference to CARICOM trade in circumventing the exchange controls which operated in virtually all member countries. By then, however, two MDCs were already experiencing severe balance of payments deficits. While the CMCF was able to facilitate trade up to early 1983, the disequilibrium in Guyana was so severe that its debt to other CARICOM members exhausted the resources of the fund, which had to be suspended. Subsequent efforts to collect the outstanding debt or replenish it were unsuccessful. Simultaneously, the rationale for the fund was being undermined, since action was being taken to liberalize foreign exchange regimes and re-establish convertible currencies in several countries. The facility remains on the books, however, since it cannot be terminated until outstanding debts are settled.

(c) The maintenance of a common economic stance to the rest of the world

The Treaty of Chaguaramas referred to a common policy stance vis-à-vis third countries in several places: in the section relating to the objectives of the Community, Article 4(b), which identified the coordination of foreign policy as one objective; in the section of the Common Market Treaty dealing with External Trade Policy, Article 34, which enjoined members to seek a progressive coordination of their trade relations with third countries or groups of countries; and again in the Common Market Treaty, in Article 39 1(iii), where members shall seek, as far as practicable, to coordinate their positions and presentations at all international economic, financial and trade meetings at which they are represented.

The Declaration of Grand Anse proposed a greater collective effort at joint representation in international economic negotiations and the sharing of facilities and offices, with immediate effect. Concerns of "marginalization" also motivated the West Indian Commission to propose that CARICOM countries adopt a collective approach to current and potential changes in the international community....and reflect this approach in common arrangements for international economic negotiations and diplomatic representation<sup>11</sup>.

Foreign policy is conducted essentially by States. The CARICOM treaties recognize this, de jure and de facto, by asking States to coordinate their positions. The West Indian Commission, while recognizing the foregoing, seemed to give a nuance to this reality. It seemed to make a case for CARICOM interests or relations as distinct from national interests, to which the latter would need to subordinate themselves to a system of sanctions, in the event of non-compliance, if the former was to maintain its coherence (Time for Action, P 424). The EU experience was given as precedent. The distinction would seem to be whether this set of activities would be considered to remain at the level of functional cooperation or become an integral to the Caribbean economic union.

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<sup>11</sup> This concern was highlighted in the context of CARICOM/hemispheric relationships which will be analyzed later.

Any evaluation of progress following the West Indian Commission would turn on this nuance. A comprehensive programme of coordination continued between member States, several instances occurring of a single spokesman being appointed to speak on behalf of CARICOM, of member countries agreeing to support single candidates for international positions or of coordinated positions being agreed to in various international forums. Similarly, the agreements between CARICOM and various third countries or groups continued to evolve, under joint supervision.

Finally, under the programme of harmonized legislation priority was being accorded to legislation relating to anti-dumping, fair competition and restrictive practices, banking and securities and the development of capital markets, intellectual property, and issues pertaining to maritime boundaries. All of these issues would codify common CARICOM policies vis-à-vis third countries.

Nevertheless, despite the impressive list of practical areas of cooperation, the element of subordination seemed still not to be conceded and joint overseas representation, except among certain OECS countries, seemed not yet to have taken hold.

## EXPANDED ECONOMIC RELATIONS - WIDENING CARICOM

**The strategy for widening**

The strategy for widening CARICOM, as proposed by the West Indian Commission, involved, "circles of association that start with the intimate West Indian family and others that encompass the extended family of the non-English speaking islands of the Caribbean, and a still larger circle of closer relations with countries of the Caribbean basin that includes territories of the South and Central American littoral" (Time for Action, P. 444). The objective was, therefore, not simply to expand the CARICOM core, although this was not ruled out for the larger adjacent Caribbean islands, once appropriate internal and external circumstances existed<sup>12</sup>. However, a precondition for CARICOM to broaden its relations was the existence of a tight CARICOM core, which would act in unity in its dealings with other countries in the region. A clear priority and time sequence were, however, envisaged for the initiatives, since, "Deepening of CARICOM must be achieved in order to make widening and closer economic association workable" (Demas 1995). In terms of timing, it would be necessary to "Deepen quickly while beginning to widen" (Demas 1995).

**Recent developments**

The centrepiece in the strategy for widening, the creation of the Association of Caribbean States (ACS), as proposed by the West Indian Commission, was agreed at the inter-sessional meeting of the Heads of Government, in October 1992. After a series of regional preparatory meetings, the convention establishing the ACS was signed in Cartagena de las Indias, Colombia, on 24 July 1994. The inaugural Summit of Heads of State and Government and representatives of the States, Countries and Territories of the ACS was held in Trinidad and Tobago, the site of its headquarters, from 16-18 August 1995. A Declaration of Principles and Plan of Action on Tourism, Trade and Transportation was agreed and signed by the new members.<sup>13</sup>

The second part of the strategy on widening, as envisaged by the West Indian Commission was also proceeding on schedule. That strategy proposed the negotiation of preferential bilateral agreements between CARICOM, as a unit, and its major trading partners. It was also envisaged that the ACS might provide the vehicle for such agreements as well as in fostering functional cooperation. "We believe it could be the means of our creating within the wider Caribbean special trading and

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<sup>12</sup> Suriname was accepted into CARICOM in July 1995. Haiti and the Dominican Republic attend certain of the functional cooperation committees as observers. A CARICOM/Cuba Joint Commission was established and the proposal to sign a Trade and Investment Agreement was being studied.

<sup>13</sup> The membership consisted of: Antigua and Barbuda, the Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Mexico and Venezuela. Also signing were Anguilla, Aruba, France (for Guadeloupe, Guyane and Martinique), the Netherlands Antilles, and the Turks and Caicos Islands.

functional cooperation agreements on terms to be negotiated - terms which will recognize the relative weakness of CARICOM economies in relation to some of the larger partners.." (Time for Action, P 446-447). A somewhat more recent and more explicit formulation was made by Demas, who stated that after CARICOM is quickly deepened, a "CARICOM group negotiation of partial or total free trade agreements with the big three of Mexico, Colombia and Venezuela, with the Andean Group, the Central American Common Market (CACM) as a group and later on, MERCOSUR, as a group, should start". It was further envisaged that after further deepening within the groups, they would establish *formal* trading and economic links among themselves and with NAFTA "and on that basis would eventually become part of the FTAA. The issue of reciprocity arises in this context". According to this formulation, reciprocity would be considered at the second stage, of formal agreements, although seemingly not for the OECS (Demas, 1995 P. 105).

Several trade initiatives were undertaken, in accordance with the strategy outlined by the West Indian Commission. A trade agreement was signed with Venezuela on 1 July 1991, in which free non-reciprocal access was accorded to CARICOM countries for five years. Explorations began with the Central American Common Market (CACM) at the level of foreign ministers in January 1992, where agreement was reached in principle to consider the establishment of a free trade area and the coordination of economic policies. A Joint Forum for Consultation and Coordination was established for the follow-up. A Free Trade Agreement was signed between Colombia and CARICOM on 24 July 1994. It was also preferential in the sense that while Colombia would begin tariff reduction in 1995, CARICOM would be given a four year grace period before beginning its tariff reduction.

The new initiatives were also to be seen in the context of already established non-reciprocal trading arrangements with the EU, via the Lome IV, with Canada via the Canada-CARICOM Agreement (CARIBCAN), with the United States via the Caribbean Basin Economic Recovery Act (CBI), which CARICOM countries were negotiating to update, via the Caribbean Basin Trade Security Bill. The bill sought parity with other NAFTA trade to the United States for 10 years, to the year 2005, the date at which the FTAA was due to come into effect. The bill also sought to enshrine the benefits of the bill in law, rather than have them accorded only at the discretion of the President.

So far these initiatives conformed to the CARICOM strategy which was essential to preserve its preferential trade arrangements. Cohesion was necessary within CARICOM to maintain the unity of the ranks, while CARICOM, as a whole, implemented a strategy of managed trade with the rest of the world, via a set of bilateral non-reciprocal trading arrangements.

However, even as these arrangements were being made, several events were unfolding to cast doubt on the viability of the managed non-reciprocal trading strategy. Larger and more far reaching reciprocal regional trading schemes were created under NAFTA and mooted under the FTAA. Prior to the flowering of the FTAA, several countries in Latin America and the Caribbean were positioning themselves in an imaginary queue for docking to that agreement and speculation was rife as to accession criteria. Two CARICOM members formally indicated a desire to accede to NAFTA.

The Summit of the Americas, held in Miami in December 1994, committed its participants to the establishment of a Free Trade Area of the Americas (FTAA) by the year 2005, which would seek the progressive elimination of barriers to trade and investment in the Western Hemisphere<sup>14</sup>. Participants agreed to conclude agreements on several issues, such as tariff and non-tariff barriers to trade in goods and services, agriculture, subsidies, investment, intellectual property rights, government procurement, technical barriers to trade, safeguards, rules of origin, anti-dumping and countervailing duties, sanitary and phytosanitary standards and procedures, dispute resolution and competition policy. The mood following the inauguration of the FTAA seemed to suggest that it had superseded NAFTA. The two CARICOM aspirants, nevertheless, continued to press their case for accession to NAFTA, presumably hedging against undue delay by aspirants in reaching agreement on the terms of entry or diminution of interest on the part of the United States for the FTAA.

Accession to the FTAA, however, would virtually overturn the CARICOM strategy of non-reciprocal bilateral agreements. If, as expected, reciprocal trade under low tariffs was the basis for the FTAA, all bilateral trade agreements in the hemisphere would be made redundant. Moreover, the Most Favoured Nation (MFN) clause would require reciprocal arrangements with the EU. Seemingly in recognition of this eventuality, the Heads of Government meeting in 1995, made a start by authorizing reciprocal trade relations between CARICOM MDCs and selected Caribbean and Latin American countries. The principle of non-reciprocity would, however, be defended for the LDCs of CARICOM.

The completion of the Uruguay Round of the GATT and the creation of the World Trade Organization (WTO), with strengthened provisions for multilateralizing trade, provided further pointers that preferential trading arrangements would be under threat. Article XXIV of the GATT which governed regional trading arrangements was under scrutiny. A formula for determining average tariffs was agreed, transition periods for the formation of FTAs were made more precise, and not to exceed 10 years, and attempts were made to ensure that MFN criteria were not circumvented. This attempt failed, but will be reopened in time. Improved dispute settlement arrangements were also likely to encourage renewed challenges to discriminatory arrangement (Rajapatriana 1994). Recent pressure by the United States regarding CARICOM bananas provided an early illustration of what could be expected.

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<sup>14</sup> Thirty four countries participated in the Summit, as follows: Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, the United States of America, and Venezuela.

## EVALUATION OF DEVELOPMENTS SINCE GRAND ANSE

Grand Anse was essentially a political act, to give impetus to regional policies that were in danger of being circumvented. But contrary to the common perception, the way forward required more than political will. For instance, technical concerns arose about many of the proposals, while developments at the national level and internationally were evolving to a different tune and at a faster tempo than those at the regional level. Proposals which seemed to be appropriate to global and regional circumstances in 1973 demanded a reevaluation in the 1990s. The real, though perhaps unintended, benefit of Grand Anse and its aftermath was not simply to increase political momentum but to reopen the policy debate for issues to be evaluated on their own merits and for their appropriateness to be reconsidered, given collateral developments.

### **The single market and economy**

The policy review process since Grand Anse and the West Indian Commission Report has been one of adapting CARICOM policy to make it more compatible with economic developments in the member States and globally. These liberalizing influences predated Grand Anse and the West Indian Commission, and may have prompted them, but they prevailed despite regional efforts to restrain them.

The regional model was the child of an earlier generation. Strategy in the 1960s and 1970s was geared to securing command and control of external and domestic activities and thereby, hopefully, the trajectory of future economic endeavours. Crucial to this approach, in open Caribbean economies, were measures to control international economic linkages. Controls, on export earnings via bilateral trade agreements to cover prices and quantities. Controls, on payments via foreign exchange regulations and rationing, import licences and/or punitive tariffs. Controls, on capital movements and denial of foreign exchange to nationals via the foreign exchange regime. All controls were designed by the public sector to secure monopoly control over foreign exchange. Domestically, the public sector would rank activities in priority and encourage them by incentives. Markets were deemed to be imperfect or nonexistent though the policies espoused had the effect of weakening and distorting them even more. The prevailing wisdom said that these policies were the most appropriate to achieve rapid self-reliant development.

CARICOM policy was an extension of this national view but with the regional economy substituting for the domestic economy. The expansion was based on expediency, since the limits of the national economy under the prevailing model became quickly obvious. Yet this expedient fell between stools.

Supporters of the closed model were reluctant to open it to the region, hence licences, quotas and other trade impediments became hardy perennials within the market. Efforts to allocate industries between countries failed. Payments within the region were subject to the same impediments as to third



countries and investment funds were hoarded by central banks for allocation by the public sector. Stratagems in CARICOM to get around these national reflexes went unused, or collapsed.

The flaws of the prevailing development model surfaced first and most painfully in those countries implementing it most zealously. Symptoms were stagnation, disequilibrium, shortages and black markets for goods and currency. Markets for goods, services and foreign exchange were rigged and prices no longer reflected demand. Overriding all was a sense of arbitrariness, a destruction of confidence, a loss of enterprise and a hesitance among the brightest to enter productive activities. Such investments as were undertaken were focused to national or regional markets where they were guaranteed a free ride.

The seeds of liberalization later grew most virulently where the prevailing model was discredited, giving rise to wild strategy swings and polarizing the policy debate. Regionally, just as the believers in the closed model were reluctant to open it to the region, so the proponents of the open model were reluctant to limit it to the region. Accordingly, opening the national economy to the global market would make redundant any piecemeal initiatives for opening it to the regional market.

**Table 2**  
**CARIBBEAN COUNTRIES**  
**Selected indicators for 1994**

Country	Export<1> Concentration (%)	Merchandise Trade/G.D.P. (%)	Merchandise and N.F.S./G.D.P. (%)	Trade taxes/ Tax revenue (%)	Unemployment Rates (%)
Anguilla	...	55.4	146.9	77.0	...
Antigua/Barbuda	...	75.8	152.6	66.1	5.7
Barbados	23.3	54.8	<2> 95.7	8.6	<6> 21.2
Belize	34.1	79.2	128.0	54.4	9.8
Dominica	47.9	79.3	124.5	56.5	9.9
Dominican Republic<5>	25.3	32.9	62.7	44.8	...
Grenada	9.3	58.6	99.1	56.9	15.3
Jamaica	<3> 78.4	78.6	<2> 101.9	14.0	<6> 15.4
Montserrat	...	41.5	<2> 77.3	52.5	5.5
St. Kitts/Nevis	40.7	65.2	144.5	55.2	4.7
St. Lucia	49.3	69.3	113.9	58.7	7.2
St. Vincent	29.0	70.0	90.5	50.6	17.9
Suriname	57.4	77.1	92.8	41.7	...
Trinidad/Tobago	<4> 75.5	55.8	61.9	10.4	<6> 18.5

Source: ECLAC, derived from national data

<1>Major export as a percentage of merchandise exports

<2>Refers to Goods and Tourism earnings only

<3>Refers to Bauxite and Alumina.

<4>Refers to Petroleum and Petrochemicals.

<5>Refers to 1993

<6>Refers to 1994, remainder based on most recent data

While the single market and economy fell between stools ideologically, it was also difficult to defend on pragmatic grounds. Trade in goods and non-factor services constituted a significant part

of Gross Domestic Product in most Caribbean countries (Table 2). Although it varied from country to country, it is estimated that aggregate trade was equal to the aggregate GDP for CARICOM countries as a group (Worrell, 1993). Given the limited coverage of domestic consumption by local production, export performance determined the import capacity for capital, intermediate and final consumption goods and the level of economic activity for each country.

CARICOM trade was not, however, a large part of overall trade, peaking at 14 per cent in 1989. Furthermore, it was noted elsewhere that if tourism, petroleum and other resource based items were excluded, the portion which could be directly affected by internal liberalization policies would fall to about 4 per cent of total goods and services (Worrell 1993). The prospects for a significant increase in regional trade were at best low, especially since the comprehensive support measures to favour regional trade were being progressively reduced.

Given these stark facts, the effort expended to consolidate and expand the single market was difficult to justify, especially since some of these measures worked against extraregional export expansion. High levels of regional protection did manage to stimulate production for the domestic market, albeit so inefficiently that the transport costs to a neighbouring CARICOM member would often render it uncompetitive with local production or imports from third countries (Worrell, 1993). Such production also placed a high inefficiency tax on domestic consumers and encouraged activities which had scant chance of ever becoming competitive in third markets. High levels of protection biased production away from export activities and as the protection was removed, many activities ceased to be viable, since they were inherently inappropriate for regional production.

### **Expanded economic relations**

At the heart of the strategy for widening lay a preoccupation with small size and the limited leverage which small countries were perceived to exert in international relations. The strategy to increase such leverage lay in a two-stage process. Firstly, to create a single CARICOM market and economy speaking with one voice. Secondly, members would deploy this voice through the ACS, using it as a lever to exert a greater influence on hemispheric and global relations than they could by just speaking as CARICOM alone.

The strategy might be flawed. A single market and economy were not essential for CARICOM to conduct joint foreign policy. However, the unified position envisaged was desirable and perhaps necessary to conduct the type of foreign economic policy envisaged by the Caribbean integration model. This foresaw a managed economy, with managed trade advancing through gradual and selective new initiatives tilted preferentially in favour of CARICOM countries.

Several criticisms could be leveled at the strategy. The most significant was that it misjudged the context in which the policy was to be applied, since the model of managed trade relations based on preferences was rapidly losing global acceptability. As global markets became more clearly defined, the tenets of international trade theory seemed to gain in credibility, supplanting the closed model espoused by development economics.

As markets consolidated and became more transparent even large countries lost their capacity to influence them. The desire to retain market power might explain efforts to create larger and larger economic blocs. In this context, a bloc of less than six million souls remained minuscule. The momentum developed by the successful Uruguay Round and the WTO gave a further fillip to the multilateral process and increased the prospect of a transparent multilateral trading system. This further reduced the disadvantage of small firms. For as the market consolidated and became more transparent, small specialized segments of it became identifiable which weakened the advantage of large mass production firms and favoured small flexible specialized producers. Moreover, the programme of the GATT closely approximated that proposed for the FTAA and the GATT timetable might be slightly ahead in several of the provisions (ECLAC, December 1995).

The relative rates of change in CARICOM vis a vis the rest of the hemisphere seemed also to have been misjudged. Changes necessary within CARICOM, to control or benefit from hemispheric or global shifts, seemed to have come too slowly and seemed to have been rendered redundant by them. For example, hemispheric relations developed neck and neck with the ACS in the subregion, and both greatly surpassed the speed at which the CARICOM single market and economy were evolving internally. From the CARICOM viewpoint this was a perverse sequence, since the single market and economy were expected to build momentum, via the ACS, to the hemispheric FTAA. Caution is needed in this assessment, however, since the process is not yet complete. Nevertheless, the start was not auspicious.

The expectation of a tidy progression from the small CARICOM bloc, exerting leverage in a larger ACS bloc, seems to downplay the complex cross-cutting of blocs in Latin America. The ACS would include members of the CACM, NAFTA, the Group of Three, the Andean Pact, and eventually, perhaps MERCOSUR. Presumably they would all have bloc and national interests of their own too.

## RECONCILING REGIONAL POLICIES WITH GLOBAL TRENDS

CARICOM policy should be judged by its appropriateness to meet stated goals. This could be measured, *inter alia*, by its technical feasibility and internal consistency. Did the policy work, would it achieve the objective and was it internally consistent? Policy must be judged not only for internal consistency but also whether it was consistent with external policies impinging upon the group, in this case national policies and global policies. It might be argued that antagonisms between national and regional policies could not arise since regional policies were defined by national actors. The argument required two responses. Firstly, the capacity for internal policy coordination was still weak in the member countries. Ministries implementing the liberalization programmes were not always the same as those pursuing trade policy. The latter which constituted the Common Market forums were also greatly influenced by industries spawned by protection and still dependent upon it. Secondly, all countries were not at the same stage of the liberalization process so that policy consensus was often difficult to obtain.

The national/regional paradigm stressed that external policy should be an outgrowth of national objectives. While logically sound it may have overestimated the regional capacity to influence external events and markets. Misjudgement on this issue could have severe repercussions for small open countries. For example, consistency between regional and global trade policy was essential simply because non-regional trade exceeded 90 per cent of the total. Moreover, the acceptable rules of the game were being defined outside of the region, in the GATT. Yet regional policy was still seen by some as competing with extraregional policy. The goal of reconciling regional and global policies was further complicated since this consistency had to be maintained as the values and goals of national and global actors changed over time.

CARICOM goals were stated as follows: “*Determined* to consolidate and strengthen the bonds which have historically existed among their peoples; *Sharing* a common determination to fulfil the hopes and aspirations of their peoples for full employment and improved standards of work and living; *Conscious* that these objectives can most rapidly be attained ... through the exercise of permanent sovereignty over their natural resources; by the efficient operation of common services and functional cooperation in social, cultural, educational and technological fields; and, by a common front in relation to the external world; Convinced of the need to elaborate an effective regime by establishing and utilizing institutions designed to enhance the economic social and cultural development of their peoples” (Preamble to the Treaty of Chaguaramas). Accordingly they agreed to pursue economic integration, through the common market; coordination of the foreign policies of member States; and functional cooperation.

Integration was to be seen as being a complex mixture of ends and means. It was driven by feelings of ethnic, racial, linguistic and cultural affinity. It was also driven by feelings of vulnerability and marginalization. These feelings were, paradoxically, thrown into stark relief because of expectations engendered by the prevailing ethos. This stressed nationalism, in the context of a strong nation State, as the means to protect national interests from a hostile external environment. But

integration was also expected to meet concerns about the quality of domestic governance in very small States. These elements, taken together, were sufficiently strong for integration to be seen as an end. For example, the Commission stated that, "The objective of our work is the improvement of the lives of all West Indians". But it goes on to state immediately that, "Our **conviction** is that this can best be achieved through closer West Indian integration in every sphere of activity"(Time for Action, P 29). Later the report stated that this was also the view of the people it consulted who expressed the view that it, "should result in a better life for themselves and, very importantly, the prospect for a better life and improved opportunities for their children. They believe that these ends can be advanced most effectively through accelerated CARICOM integration and closer co-operation with sister Caribbean countries"(Time for Action, P 33). Nevertheless, integration, through the Common Market, was also seen as a means to improve material well-being.

Given that integration was a fundamental part of the regional philosophy and satisfied several valuable social and psychic needs, it must be redefined to reconcile it with global trends. Failure to do so might hamper economic development and fail to satisfy a major objective of CARICOM people, full employment and improved standards of work and living. In turn, this might lead to a rejection of its positive elements, a reduced sense of identity and morale for Caribbean people and a passive incorporation into the wider global community. This mode of integration into the global community is regarded by some as absorption.

The concept of open regionalism, espoused by ECLAC might provide some pointers. Open regionalism was an attempt to reconcile, "the interdependence that stems from special, preferential agreements, and that which basically arises from the market signals that are produced by trade liberalization in general. What open regionalism seeks to accomplish is to make explicit integration policies compatible with, and complementary to, policies to enhance international competitiveness"<sup>15</sup>. (ECLAC 1994)

The discussion about open regionalism was germane to CARICOM since it responded to many of the conflicting currents which buffet Caribbean people. Policies toward greater economic liberalization were evident at the national level and these gave rise to fears for the survival of regional initiatives. Grand Anse and the West Indian Commission which followed it, were attempts to reestablish the primacy of the regional model. The ongoing revision of policy since then has attempted to make regional strategies more compatible with national and global policies. This has taken the form of a dialectic, however, since both currents were still deemed by many in the region to be antagonistic. Several of the proposals for open regionalism were in fact being adopted by CARICOM. Notable were the efforts to liberalize markets and implement measures to reduce transaction costs. Efforts to broaden the narrow focus from a goods market to one for services, capital and labour were also moves in the right direction. Several initiatives will continue to be of benefit to member countries. Yet many of the strictly economic measures will evolve to a much broader hemispheric and ultimately global level with the passage of time. Many wonder what would be left?

As mentioned above, Caribbean integration springs not only from a desire to increase material wealth but includes a strong sense of shared values. The concept of single market and economy evolved to give form to its economic dimensions. But integration also has political and other dimensions, not universally accepted, or even precisely defined but, nevertheless, held by many. These include a sense of closeness, of cultural affinity and the belief that the disadvantages of small size, which are primarily psychological, can be reduced by cooperation. Integration is also the quest to find institutions to make these diffuse sentiments concrete.

It has been suggested that “political union could be conceived of in innovative ways that do not necessitate the amalgamation of power into one single centre or even federalism” but through “a dynamic and divisible concept of statehood, sovereignty and nationality constituted in, say, a West Indian Commonwealth or West Indian citizenship” ... “West Indian unity would be anchored and expressed through political forces as cultural-historical identity, kinship, security and defined rights rather than through regional integration schemes...” (Brewster 1993). This formulation seemed to capture deep felt sentiments in a way which did not force it to contend with nationalism or the vain quest for a powerful nation-State. It might be useful to explore forms which would make the idea concrete since it appears to be compatible with post modern thinking.

CARICOM is unique in the Latin American context because of the priority which it gives to functional cooperation, policy coordination, improved governance and inclusive culture. These areas are far less controversial, they have suffered far fewer policy reversals, they have achieved much greater consensus and higher rates of implementation than the faltering efforts to achieve the single market and economy and they will probably outlast it. Moreover, they are consistent with international trends to greater cooperation between States.

The initiatives coming from within CARICOM, from the hemisphere at large, through the FTAA, and from the expectation that hemispheric arrangements must be replicated to the traditional trading partners in Europe and beyond, all place the notion of a unique CARICOM single market and economy under stress. Serious questions therefore arise as to: the ways in which CARICOM will need to adjust its economic arrangements; whether CARICOM countries can qualify as a group for entry to the FTAA and, if not, what are the implications of individual entry for CARICOM; the state of relations with the EU, including the current preferential arrangements; the role of the ACS given the current impetus to the FTAA; whether the FTAA is the most appropriate means of integrating into the global economy; and last, but by no means least, whether the FTAA will materialize and if not, what fall back exists for Caribbean countries.

CARICOM, despite its move to strengthen the single market is unlikely to be able to retain its present market arrangements. The single market is still very small to develop the scale economies necessary for global penetration. The policies of high protection under which it is predicated are under pressure regionally and globally. They are also under pressure from the domestic policies of some of its members, which are premised on the liberalization of markets and increasing mobility of productive factors. The CET is under pressure from within the group and from without, via the GATT and from the FTAA. Policy convergence is necessary for a functioning common market, yet

will be difficult to achieve as all are small fragile economies, requiring nimble economic management. All economies are not changing with the same tempo and consensus on the choice of appropriate policy tools is still limited. Moreover, they are small high cost producers. The potential for integrating investment and production within the common market, though probably limited, has also been slow to materialize. Production will, therefore, tend toward specialized high income elastic products, for which there is minimal demand within the common market, but for which relatively large markets can be found globally. Caribbean producers have traditionally focused on such markets in recognition of the fact that the capacity to import, even from within the common market, depends on their export capability to the rest of the world.

While most elements of the single market and economy seem to rest on dubious premises, CARICOM encompasses far more than its market arrangements. Functional cooperation in its various guises and the coordination and exchange of ideas on foreign and domestic policies will remain viable and valued activities. Ways need also to be found to build the political elements mentioned earlier into a new constellation of regional activities, since the non-economic needs of CARICOM will become even more acute as the member countries find their way globally.

Positions taken toward market liberalization were not unanimous within CARICOM and the pace of domestic economic preparation amongst members to participate in wider markets was uneven<sup>16</sup>. Enthusiasm for liberalization seemed less strong for those countries which eschewed exchange rate policy flexibility, since while relinquishing flexibility on exchange rates they needed to be more concerned with external balance. Accordingly, they are more cautious about liberalized trade and capital flows and about embracing wider markets. Commitment to market liberalization and the state of preparedness seemed best to coincide in Trinidad and Tobago, with Guyana being somewhat less committed though better prepared than many, although debt obligations weakened its case. In Jamaica, the converse was true, with strong commitment, although the level of economic performance was somewhat weaker, judged by high inflation and steady depreciation of the currency. Both factors were caused, in part, by onerous debt obligations. These countries may be referred to somewhat euphemistically as the "leaders" in liberalization.

Barbados seems well prepared though, perhaps, somewhat less committed to liberalization. This was in part because its current economic stability was reached in the context of greater administrative controls, which will need to be relaxed in a liberalized framework. The OECS countries and Belize were relatively less prepared, with the former seemingly less committed than the latter. Most OECS countries achieved stability spanning several years, like Barbados, with effectively used controls, including fixed exchange rates. However, these countries were still quite dependent on import taxes for revenues and their major export crop, bananas, remained subsidized. Belize was in the process of policy reform and was currently experiencing some instability in its fiscal account,

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<sup>16</sup> The completeness of preparation includes the adoption of policy tools which will accurately reflect and adjust to domestic and global market signals. Openness to trade in goods and services and relatively free movement of capital for at least current transactions are further prerequisites, as is legislation to protect intellectual property. It is demonstrated by a measure of domestic economic stability, judged, inter alia, by price and exchange rate indicators, under this regime.

although export performance remained strong. It must still face the impending shock from the removal of subsidies on bananas, although in this regard it is less vulnerable than several other Caribbean countries. Several areas of policy reform remain to be tackled, especially measures to reduce the dependence on trade taxes. Suriname, a recent entrant to CARICOM, is currently mired in domestic policy adjustment of a magnitude not experienced in other CARICOM countries. Currently, it can ill-afford to focus on international economic policy. This latter group may be considered to be "lagging" in their policies toward liberalization.

The state of preparedness among CARICOM members is, therefore, uneven although it is conceivable that the lagging countries could meet the criteria of sufficient openness to qualify for entry to the FTAA by 2005, if they wish to do so and if in fact the FTAA comes into force at that time. A decision of only some CARICOM countries to enter the FTAA could create strains, especially if the lagging countries sought to freeze or retard the preparations of CARICOM membership as a whole. This would create internal tensions before the deadline for accession, since the lagging countries would immediately begin to reduce the rate of policy reform of the "leaders" in areas which would require consensus by all CARICOM members, such as trade policy. It is difficult to predict how the internal dynamic within CARICOM would evolve, although if the past provides a guide, members would in all likelihood act unilaterally, without central sanctions being applied. Members might, therefore, go their separate ways leaving a small group of lagging countries for the eventual common market core. This could weaken the grouping and endanger those aspects of the community most likely to be useful for the future.

CARICOM retains a dependent relationship with the EU. It has been slow to take advantage of opportunities to build stronger economic linkages with that grouping through investment and joint enterprises, although the option was proffered through the various Lome proposals. The focus remained on preferential arrangements for traditional exports to Europe and aid flows. The former arrangements have a finite life, being under threat from the GATT and bilaterally from the United States and within the region. Aid flows are likely to taper off in all scenarios. Policy attention in the EU is focusing on the integration of its immediate neighbours in Eastern Europe, building stable relationships with the southern Mediterranean and assisting the development of sub-Saharan Africa. Further afield, new impetus is being given to the trans Atlantic dialogue. Despite the existence of strong pockets of protectionist influences in some EU countries, as indeed they are strong in some sectors in the United States, a free-trade arrangement of broad scope between the EU and the United States/NAFTA is not inconceivable by the year 2000. Momentum is also building quickly in the EU/MERCOSUR relationship.

While the CARICOM/EU relationship is strong, its importance must be placed in proper perspective. Already, the Hispanic influences in the EU have widened its focus, to include the Spanish speaking Caribbean countries. EU interest in Central America is also strong. Given the commitment of EU countries to the concept of integration, it is not surprising that Caribbean integration is strongly supported. Yet it would not be inconsistent if the EU found it administratively more convenient in the future to treat with the ACS countries as a group. It is highly unlikely that the current Lome policies vis-à-vis preferences and financial assistance will continue with the CARICOM countries or



be extended to the wider group. These developments argue for a more mature relationship with the EU, based on mutual interest. The objective should be to better integrate Caribbean economies into that of the EU, so as to identify areas of mutual benefit. The Caribbean might provide productive workers for the creation of goods and services, allocational benefits for EU industries and services and markets in the Caribbean. They would, in turn, receive investments, technology and access to markets in Europe. In effect, efforts should be made to establish a comprehensive range of economic arrangements similar to those envisaged for the FTAA. The current Lome arrangements still have some time to run. Nevertheless, it would be infinitely preferable for new attitudes to the EU/CARICOM relationship to begin now.

The ACS was proposed by the West Indian Commission to resolve the issue of how to interact with adjacent countries, some of which had longstanding applications for CARICOM membership. The ACS was mooted before the hemispheric thrust gained momentum, at the time seeming to be as much as the current state of thinking within CARICOM membership would bear. Accordingly, it was not intended as a free trade arrangement. Since then much has happened to increase the range of options available to CARICOM leaders. For some of them, the larger and more sophisticated markets in North America for goods, capital and technology hold a strong attraction. For the countries which lag in the adjustment process it exposes them to almost the same risks of market penetration as would occur with the wider FTAA, but with the possible disadvantage of lower quality higher priced products, reduced access to the larger pool of capital and technology and the larger and more diversified market of North America.

It is sometimes argued that the ACS could provide a way station to the FTAA. This will only be possible if the process of transformation within the ACS is so efficiently and expeditiously managed as to provide a liberalizing momentum to cascade into the FTAA. The chances of using the spur of the FTAA to persuade the laggards seem to be better within the familiar confines of CARICOM than in the newer and more heterogeneous ACS. For the leaders, the ACS could provide a test ground for market opening but the timing is unlikely to be sufficiently generous for that benefit to be realized. The original intention, of preferential bloc type negotiations, seems to have been overtaken by events.

Integration into the FTAA market, like integration into any limited market, will always be seen as technically second best to integration into the global market. But given the state of thinking in the region, it might be easier to sell the benefits of a binding hemispheric arrangement, with reciprocal rights and duties and a clearly defined "club", than the more diffuse and difficult to grasp concept of integration into the global economy. The latter might represent too large a qualitative change to be readily embraced while conceptually, the FTAA could be explained as part of a process of measured steps, from CARICOM to the ACS to the FTAA. Impetus to action might also be propelled by the fears of being left out or behind, or by envy that a neighbour could gain a benefit to which one would be denied.

Managing the process of policy transformation to qualify for entry to the FTAA would also be more effective, with timetables, deadlines and discreet policy steps to qualify for entry.

Fortunately, given the current outward looking nature of the mooted agreement and its size, the **criteria** for qualification to the FTAA should not differ significantly from that which would fit its members to benefit from more outward trade policies. If the process of accession to the FTAA can, therefore, set in train an outward orientation in the **attitudes** of CARICOM countries, the policies should improve their prospects for more efficient global interaction. But lurking in the background is always the danger that trade blocs could change from being stepping stones to stumbling blocks in the way of global integration. Economic conflict between three large blocs might benefit a few in the short run, but probably not the smallest countries.

The establishment of the FTAA by 2005 was not a certainty. The forces of protection and inward orientation existed in the prime driver of the FTAA, as they existed elsewhere. These forces cut across political boundaries, so that judging the probability of achieving the FTAA by 2005 was clouded in some uncertainty. Opinions could shift rapidly in response to global or domestic political events. Attitudes to the FTAA could also be influenced by the position of a leading country in its economic cycle, whether the economy was expanding and confidence high or whether it was in recession with high unemployment. A decision might be swayed by a favourable or unfavorable conjuncture of events. These considerations raised the spectre of uncertainty or even caprice. They also raised the question of what CARICOM countries should do in the event that the FTAA did not materialize?

It was suggested above that integration into the global economy was the best option for CARICOM countries, but that managing the process might be difficult and subject to considerable slippage if undertaken as a CARICOM group, or even unilaterally. The failure of the FTAA need not, therefore, be a source of dread, provided countries meet the criteria for membership. This is because the process would have led CARICOM countries most of the way to meeting the criteria for global integration. As it proceeded to qualify for the FTAA, CARICOM countries should, therefore, continue to develop their relations with traditional trading partners in the EU and continue to strengthen their relations with selected Asian countries. These partners should be made aware from the outset, that Most Favoured Nation treatment would be willingly and expeditiously extended to them. Every effort should be made to encourage investment and trade from these groups, initially in the event of a FTAA but also for non-hemispheric markets, with or without it.

In conclusion, preparations for hemispheric interaction should be seen as part of a process, a process which should erect a framework to help Caribbean countries to move from protected inward looking arrangements to a system which will improve their chances in dynamic global markets, whether they are located in the Western Hemisphere, Western Europe, Asia or elsewhere. Simultaneously, as the single market withered away CARICOM countries should try to reap any benefits they could from increased factor mobility in the region to build productive enterprises. Finally, the non-economic aspects of CARICOM should be bolstered and ways explored to nurture the regional identity, since this will become increasingly important as the momentum of globalism develops.

Annex A**OPEN REGIONALISM**

The following pointers were suggested by ECLAC (ECLAC 1994), to guide regional initiatives which wanted to adapt an open integration policy:

- \* Policy should provide for an extensive liberalization of markets in terms of sectors. This implies few exceptions though it does not preclude differing transition periods. Given the benefits already derived from unilateral liberalization on intraregional trade, tariff and non-tariff barriers should not be increased.
- \* A broad liberalization of markets, in terms of countries, is also needed. This implies first, making the criteria for new members to join more flexible; second, harmonizing standards on the basis of those established at the multilateral level; and third, according investment of intraregional origin the same treatment as national investment.
- \* The integration process should be governed by stable, transparent rules.
- \* As stabilization is consolidated, it will be possible to reach more ambitious integration agreements; in other words, to multilateralize the process.
- \* In the current international context, common external tariffs and moderate levels of protection against third-party competitors are efficient instruments for reducing incentives for smuggling and avoiding accusations of unfair trade practices. It should be borne in mind that rules of origin could become a hidden instrument of protectionism. While these rules may be necessary, especially in the absence of common tariffs, considerations of competitiveness and equity imply that their requirements should be limited.
- \* National treatment should be extended to intraregional investment.
- \* Integration can also help to cut down on factors that make transactions more difficult or costly, which in addition to tariff and non-tariff trade barriers increase costs to regional suppliers and effectively obstruct reciprocal trade. This might involve building infrastructure to link countries together, eliminating or harmonizing rules and regulations and implementing institutional reforms to make it easier for incomplete or fragmented markets to become integrated.
- \* Where trade imbalances exist among the countries of the region, it is better to deal with them on the basis of negotiations or prior consultations rather than to try correcting macroeconomic asymmetries exclusively by cutting back on reciprocal trade.

- \* Since intraregional trade is vulnerable to temporary global deficits in the balance of payments (and their potential impact on exchange rates), regional institutions that work to shore up the balance of payments might need to be legally and financially strengthened.
- \* Payment systems could also become a basic tool for facilitating the expansion of reciprocal trade and investment flows.
- \* The harmonization of standards must be made a basic component of the integration process.
- \* An integration process intended to promote the absorption of technological progress requires, in addition to the extensive liberalization of markets, flexible sectoral arrangements to help enterprises reap the potential benefits of integration.
- \* The sectoral arrangements established under integration agreements should be reoriented so that they are no longer confined to trade regulation. They should become more flexible and open-ended, for purposes such as eliminating obstacles through projects or facilitating trade and investment.
- \* These commitments would thus become forums for cooperation between the public and private sectors and could be designed to fulfil some of the systemic requirements of competitiveness in the participating countries.
- \* In order to foster interdependence, the absorption of technologies should be expedited at the regional level by various means, such as greater mobility of skilled labour, reciprocal investment, joint use of infrastructure, production of inputs that can be used in a number of different industries, adoption of new technological systems, exchange of technological data, experience and opportunities.
- \* The process of technological dissemination and innovation which integration seeks to promote requires the strengthening of relations with countries outside the region where most major technological innovations originate.
- \* There is a need for mechanisms to make it easier for small and medium-sized enterprises, to obtain financing and technology.
- \* In general, the aim should be to promote actions that stimulate supply to meet the greater, more exacting demand created by broadened, liberalized markets.
- \* Finally, social integration within each country, through the enactment of policies aimed at reducing marginalization, plays a crucial role in regional integration, not only by increasing the size of the markets being integrated, but also by making a contribution to a more participatory, solid development of international competitiveness.

\* One way of reconciling these viewpoints is to implement the tariff reduction processes, gradually and progressively to ease the adjustment of production activities to the new circumstances. Countries or sectors considered to be less able to take advantage of the broadened market would make this adjustment through slower, but clearly established, tariff reduction processes.

\* Special treatment that would generate benefits both for countries with less capacity to take advantage of the potential of integration and for the other countries.

\* Trade integration may increase the need to coordinate macroeconomic policies. Moreover, it must be recalled that the most solid forms of coordination result from a somewhat lengthy process, during which integration gradually gathers momentum and macroeconomic policies constantly interact.

\* Exchange of information and an examination of the potential impacts of the coordination of exchange-rate policy, in a narrow context, is not a practical option at the current early stage of Latin American and Caribbean integration processes.

\* The institutions in charge of implementing economic integration processes must reflect the degree of advancement of those processes.

\* It would be advisable to avoid rigid commitments in favour of flexible schemes that are adaptable enough to ensure that the pace of institutional development is determined by the momentum of the process itself.

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